Reverse Mortgages

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Is One Right For You?

Department of Real Estate
2012

State of California
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I. Reverse Mortgages

A. What is a Reverse Mortgage?

Perhaps you have heard the term “Reverse Mortgage”; someone may have suggested one to you. If you are 62 or older, Reverse Mortgages are a way to borrow against the equity in your home (the value of your home minus any mortgage debt you may have) to provide what may be tax-free “income” (referred to as “cash flow”). You continue to own and live in/occupy your home for the term of the loan; generally defined to be when the last borrower permanently leaves or sells the home. You must maintain your home, keep homeowner’s insurance current, pay for property taxes, and pay for any assessments or related fees imposed by a homeowners association (should your home be in a common interest development).

If the Reverse Mortgage is insured by the Federal Housing Administration (”FHA”), it is known as a Home Equity Conversion Mortgage (“HECM”) and the definition applied for permanently leaving your home requires 365 days of continuous absence. If the Reverse Mortgage is a proprietary product (other than a HECM), California law defines temporary absence from your home as a period not exceeding 60 consecutive days. Extended absences from your home exceeding 60 consecutive days (but less than one year) will not result in the Reverse Mortgage becoming due and payable, whether a HECM or a proprietary product. This assumes appropriate action satisfactory to the Reverse Mortgage lender has been taken to secure and protect your home (including proper insurance coverage) in your temporary absence.

The HECM program manages the risk of loan loss by controlling the amount you may receive during the life or the term of the loan. This amount is the Principal Limit, which is determined by a calculation accomplished at the time of origination of a HECM Reverse Mortgage. This calculation includes consideration of the Maximum Claim Amount, the Expected Average Mortgage Interest Rate, and the age of the youngest eligible borrower. The Principal Limit available at any one time increases each month by 1/12 of the sum of the Expected Average Mortgage Interest Rate and the annual Mortgage Insurance Premium ("MIP"). Thus, the Principal Limit is adjusted constantly to include the amount of accruing interest on the loan and for the annual MIP required by FHA.

Lenders have three methods they may use to calculate the Principal Limit:

- A U. S. Housing and Urban Development ("HUD") origination software that includes calculation of the Principal Limit is available to lenders.
- If the software is not used, lenders are to follow the calculation instructions in the HUD HECM Handbook.
- The Federal National Mortgage Association ("Fannie Mae") has developed software entitled, "MORNET Housing Impact Delivery System", that incorporates HUD approved calculations to determine the Principal Limit.

A HECM Reverse Mortgage provides that scheduled loan payments are not required until the end of the loan term. The money you receive may be in the form of one of the following plans/options:

- *Initial Payment* - A lump sum of cash to be received at the time of loan origination (the close of the loan escrow) rather than over a subsequent period or until you no longer occupy the home as your principal residence (the youngest eligible borrower dies or permanently moves out).
- *Tenure Payment* – Provides for equal monthly payments that continue for your life or for as long as you live in your home. This plan allows for monthly payments until the loan balance reaches the applicable Principal Limits established at the time of origination when the Reverse Mortgage is a HECM product.
- *Term Payment* – Provides for equal monthly payments up to the established Principal Limits for a fixed length of time/loan term to which you and the lender agreed.
- *Line of Credit Payment* – Provides for issuance of

payments as you request disbursements from the lender. You specify the amount of disbursement for each request provided the established Principal Limit has not been exceeded and you continue to occupy the property as your principal residence.

- *Modified Term Payment* – Combines the term payment plan/option with a line of credit. This permits you to set aside part of your established Principal Limit at loan origination to create a line of credit that can be drawn on during the life or the term of the loan. The remainder portion of the Principal Limit would be distributed in the form of equal monthly payments over a fixed loan term to which you and the lender agreed.
- *Modified Tenure Payment* – Combines the characteristics of a Tenure Payment Plan with those of a Line of Credit Payment Plan. This permits the lender to set aside part of your Principal Limit at origination with which to create a Line of Credit available for subsequent draws upon request and to receive the remainder portion of your Principal Limit in equal monthly payments until you no longer occupy the property as your principal residence.
- *Other Combinations of any of the above or similar plans/options – Additional plans/options may be available if the Reverse Mortgage is a proprietary product (other than a HECM).*

Special Alert – As of the revision date of this booklet, proprietary Reverse Mortgage products are generally unavailable. Most lenders making Reverse Mortgages are relying on FHA insured HECM products that include the plans/options described above. HECM plans offer either fixed interest or adjustable interest rates. Many lenders of Reverse Mortgages prefer to limit the fixed interest rate product to a plan that requires the total Principal Limit to be disbursed when the loan is originated (at the close of the loan escrow). This first HECM program requires you to consider how to use the loan funds over your remaining expected life or the time you expect to live in and occupy your residence (you will not be receiving monthly payments from the lender).

A second HECM program offers an adjustable rate mortgage ("ARM") that requires an adjustable interest rate calculated by adding 300 to 325 basis points (meaning 3 to 3.25%) to the London Interbank Offered Rate ("LIBOR") reported at the time the Reverse Mortgage loan closes. The LIBOR is a daily referenced rate based on the interest rates at which banks borrow unsecured funds from other banks in the London wholesale money market (or interbank market). The LIBOR plus 3 to 3.25% will represent your Reverse Mortgage initial interest rate. The loan interest rate is subject to adjustment during the loan term as the LIBOR increases with the maximum adjustment being limited to a 10% increase over the initial interest rate.

Assuming the LIBOR is 1% per annum when your Reverse Mortgage loan closes, your initial interest rate would be 4 to 4.25% per annum depending upon what you have negotiated with your lender. The adjustable interest rate has no floor or per adjustment limitation and could move upward to a cap of 14 to 14.25% per annum (the initial interest rate plus 10%) during the life or term of your loan. This HECM program does not include a monthly or an annual cap on interest rate increases. Therefore, the interest rate may be adjusted monthly which could result in a rapid upward movement of the initial interest rate over a short period. This adjustable rate HECM program is known as ARM Plan 857.

A third HECM program offering an ARM for Reverse Mortgages provides for interest rate adjustments every 12 months and includes a 2% per adjustment cap, a 5% lifetime ceiling, and floor interest rate adjustment caps. Once the interest rate adjusts upward, future declines in the identified index (e.g., LIBOR) may not result in the interest rate increase from previous adjustments to decline below a predetermined floor (the interest rate or rates described as the floor or as the minimum rates in the promissory note or the adjustable rate allonge attached to the note). This adjustable rate HECM program is known as ARM Plan 856.

Few originating lenders and secondary market investors (persons, entities, or institutions that purchase Reverse

Mortgages from originating lenders to hold as an investment) engage in ARM Plan 856. The lack of availability of ARM Plan 856 is apparently due to the limitations on interest rate increases to which this program is subject, i.e., the annual limitations on adjustments with a 2% cap per adjustment, and a lifetime ceiling of 5% over the initial interest rate. For example, should the initial interest rate be established at 4 to 4.25%, the maximum interest rate to be imposed would not exceed 9.25%.

HECM products include FHA insurance coverage intended to protect you during the life or term of your loan in the event your lender is subject to a government enforcement action or to economic events preventing the lender from continuing in business. The insurance continues the monthly payments during the life or term of the loan to which you and your lender agreed. Most FHA insured HECM products do not include a specific loan term. Rather, the due date of a Reverse Mortgage is determined by when the last eligible borrower dies or permanently leaves the home.

The FHA insurance protects the lender as well as the ultimate secondary market investor in the event the total amount you owe on your Reverse Mortgage (including the accruing interest at the adjustable rate) exceeds the market value or the sales price of your home when the loan becomes due and payable in full. FHA would be obligated under the terms of the insurance coverage to pay to the lender and the secondary market investor the difference between the then market value or sales price of your home and the amount you totally owe pursuant to the terms of your Reverse Mortgage. This coverage does not extend to you or your heirs. It is intended to provide the lender with payment in full of all funds advanced during the loan term.

Carefully read this booklet before you decide to pursue a Reverse Mortgage. It is designed to help you make a considered decision about the most valuable asset you may own — your home. This booklet outlines some of the things you should think about before applying for a Reverse Mortgage.

B. When is a Reverse Mortgage right for you?

- You are committed to staying in your home because you do not want to leave or other housing alternatives are unappealing or unaffordable.
- You want to maintain or enhance your lifestyle to enjoy your "golden years".
- You want a cushion for major expenses such as medical bills, long-term care, or for major home repairs.
- You have a regular need for additional income or to increase cash flow to live on and your only significant asset is your home. Even if you have other financial assets, you may wish to consider using the equity in your home through a Reverse Mortgage as part of a comprehensive retirement plan.
- You want the peace of mind that comes from knowing additional funds are available for your financial needs.
- You have a mortgage and want to eliminate your monthly mortgage payments.
- You do not plan to leave your home to your heirs or you are comfortable knowing that a Reverse Mortgage will reduce if not eliminate the equity in your home that otherwise may be willed to your heirs.

C. What are some of the potential advantages of Reverse Mortgages?

- May help you continue your financial independence and maintain or improve your quality of life.
- Allows you to remain in and keep title to your home.
- The money you receive is generally not considered taxable income. You should consult with an independent tax professional prior to proceeding with a Reverse Mortgage to determine individual tax consequences.
- You make no payments (principal or interest) until the end of the term of the loan (defined to be when the last eligible borrower permanently leaves or sells the home, when you die, when a fixed due date occurs, or at the end of the loan term as it otherwise may be determined).

- You can eliminate mortgage payments by paying off existing loans through an initial payment from the Reverse Mortgage when the loan is originated (the loan escrow closes).
- You can select from several different benefit payment plans/options to meet your needs (although the plans/ options may be limited when relying on a HECM product).
- Your income or credit score is not a consideration in obtaining a Reverse Mortgage, since no payments are required until the loan ends.
- Independent counseling is required in advance, whether the Reverse Mortgage is a HECM or is a proprietary product.
- It is possible the principal balance of your Reverse Mortgage will exceed the market value or sales price of your home at any given time during the loan term. However, a HECM product limits your obligation to the then market value of your home. Owing more than the market value or sales price of your home when the Reverse Mortgage becomes due and payable in full may be an issue with some proprietary products. This means you may be personally liable with certain proprietary products, if the balance owing in connection with your Reverse Mortgage exceeds the then market value or sales price of your home (a recourse loan).

D. What are some of the potential drawbacks of Reverse Mortgages?

- They are even more complicated than conventional mortgages, and the consequences of various plans/ options are not always obvious.
- They are relatively expensive compared to other alternatives, especially at the time the loan is originated.
- Although the money you receive is typically income tax-free, it may affect your eligibility under existing law for “needs based” public assistance benefits such as Supplemental Security Income (“SSI”) and Medicaid/MediCal.
- May reduce or eliminate the equity in your home affecting the estate to be distributed to your heirs.

- When the product is other than a HECM, you should confirm the Reverse Mortgage is entirely a non-recourse loan. This means the liability to repay the loan is limited to your home (its then market value or sales price) and would not subject any of your other assets or income or the income and assets of your heirs as sources for repayment.
- Are often not well understood even by real estate, mortgage, tax or legal professionals. Check out their experience with these mortgages before accepting their advice.

E. What types of Reverse Mortgages are available?

- FHA insured mortgage – a HECM product.
- Lender or privately insured mortgages - proprietary products that are generally unavailable as of the date of revision of this booklet.
- Uninsured mortgage products offered by a financial institution or a licensed lender - again, proprietary products that are generally unavailable as of the date of revision of this booklet.

Each type of loan may be different in the amount you can borrow (Principal Limit), how the proceeds will be paid, and in the amount allowed for expenses. These include origination fees; interest on the principal amounts received; closing costs; and other fees, costs, and expenses including monthly service fees and the MIP. FHA insured Reverse Mortgages are substantially consistent in material loan terms regardless of the lender or mortgage broker source from or through whom you obtain the loan (provided you are comparing the same HECM program).

F. What are some important questions* to ask before choosing a Reverse Mortgage?

- How much money do I need?
- Is there a way to meet my needs that does not involve a Reverse Mortgage?
- Will a Reverse Mortgage make my partner or me ineligible for any "needs based" public assistance benefits — now or in the future?

- Does my home qualify for a Reverse Mortgage?
- How much can I borrow through available Reverse Mortgage products?
- How much will it cost me in origination fees, closing costs, interest, monthly or periodic fees, or in related expenses to borrow this money, even if I do not have to pay any "out-of-pocket" funds when the Reverse Mortgage is originated?
- Will I have to sell my home before I die to pay off the Reverse Mortgage?
- If I die and my partner is still living in my home, will he or she have to leave or pay off the Reverse Mortgage?
- Will the Reverse Mortgage become due and payable if I require long-term care and move to an assisted living facility, or to a nursing or convalescent home?
- Will there be anything left for my partner, my heirs, or me when the Reverse Mortgage is fully paid?
- Are there any fees, costs, or other charges due when the Reverse Mortgage is fully paid? Regardless of product, prepayment penalties cannot be demanded when the Reverse Mortgage is partially or fully prepaid.
- What are my continuing financial obligations with a Reverse Mortgage, such as property maintenance, property taxes, insurance premiums, and homeowners association assessments or fees (as applicable)?

* This list of questions is generally consistent with the list included in, "Guarding the Golden Years. Reverse Mortgages", published by Consumers Union, West Coast Regional Office, 1535 Mission Street, San Francisco, CA 94103. Website: www.consumersunion.org . However, this list has been modified to reflect applicable law and market conditions as of the date of the revision of this booklet.

G. Seven important things to consider or do before you make a decision (a review).

1. Decide how long you expect to stay in your home. Reverse Mortgages are relatively expensive as short-term loans. This is the result of up front costs such as mortgage insurance premiums ("MIP") imposed at loan origination or spread over a few years. If the Reverse Mortgage is a short-term loan, additional up front costs in the form of origination fees and closing

costs may be very expensive. You should consider other options if a Reverse Mortgage would not work as a long-term solution.

2. Consult with a HUD approved Reverse Mortgage counselor or counseling agency before you apply. The lender is to provide you with a list of not fewer than ten nonprofit counseling agencies located in this state that are approved by HUD. (A list is available in Section V at the end of this booklet.)

   Counseling services are no longer offered free of charge (with rare exception). The fees for these services are capped by HUD at not more than $125 and currently range from $75 to $125. A counselor can help you decide whether a Reverse Mortgage or some alternative loan product best meets your needs. Counseling may help you choose between the different Reverse Mortgage products available. The counselor or counseling agency should be able to answer the "what if" questions, including whether you a need a Reverse Mortgage.

   The counselor or counseling agency is not to receive any compensation, whether directly or indirectly, from the lender or from any other person or entity involved in originating or servicing the Reverse Mortgage; or involved in the sale of annuities, long-term care insurance, investments, or any other type of financial or insurance product. The counselor or counseling agency *must be truly independent and may not steer you* to any specific lender or mortgage broker or to a limited/specific list of these loan sources.

3. You may also wish to consult with an independent accountant, a lawyer experienced in Reverse Mortgages and about other senior citizen issues, or a certified or registered financial planning professional. However, these professionals will typically charge fees for their services.

4. Include trusted family members, especially grown children, in the decision making process. Try to get consensus among your heirs before going ahead. If inheritance is an issue, adult children may be willing to help.

5. Shop around and compare offerings. Not all Reverse Mortgages are the same. This is particularly true with proprietary products that are generally not available as of the date of the revision of this booklet. They can vary substantially in how much money you receive whether immediately or in the long-term, how the money is paid, how much you pay in interest and in other charges, as well as in other features. HECM products include loan programs that should be similar or substantially the same, regardless of the lender or mortgage broker from whom you obtain the loan.
6. Determine if your Reverse Mortgage affects your eligibility for "needs based" public assistance benefits.
7. Review with the counselor or counseling agency whether your home qualifies (including the impact of any existing loans) for a Reverse Mortgage.

Do you still have questions? Read on. The rest of this booklet will try to make you more knowledgeable about Reverse Mortgages, answer some of the most frequently asked questions, and provide pointers to sources of more detailed and specific information.

II. Reverse Mortgages — Frequently Asked Questions

A. Review and Summary

Reverse Mortgages are quite different from conventional mortgages. In this section, we review what has been previously discussed as well as answer typical questions that you may ask. More detailed and specific questions may be discussed with the independent counselor or counseling agency you select. You will find more information concerning independent counseling and about locating a counselor or counseling agency in Sections III and V.

B. What is "reverse" about a Reverse Mortgage?

You are probably familiar with conventional mortgages. When you borrow money to purchase or refinance a home, the loan you receive would typically be a conventional mortgage. With conventional mortgages, the payments you make will build equity in your home assuming the market value of your home is increasing or at least remaining stable. You reduce the debt by making regular payments of principal and interest from your income until the loan is fully paid. As you make principal and interest payments, in a stable market your equity (the home's value minus any mortgage debt) increases and your debt (loan balance) decreases. If you fail to make the required mortgage payments, you could lose your home and any equity you may have through foreclosure. With a Reverse Mortgage, you borrow against the equity in your home to obtain an initial lump sum payment, to produce income (to generate monthly cash flow), to establish a line of credit to use as needed, or a combination of these or other plans/options. The plans/options and combinations of programs from which you may select depend upon the Reverse Mortgage products available when you apply for the loan.

The total amount owing under the Reverse Mortgage must be paid in full at the end of the loan, as defined. You may pay in full the Reverse Mortgage by selling your home, refinancing the loan (assuming sufficient equity exists), or by using other assets or income sources. If your Reverse Mortgage is an FHA insured HECM product, your decision is affected by the insurance coverage. You cannot lose your home during the term or life of the Reverse Mortgage for not making payments, since you do not have any monthly payments of principal or interest to make. Remember, you still must pay for homeowner's insurance coverage, property taxes, the costs incurred to maintain your home, and for assessments or fees imposed by a homeowners association (as applicable). Meanwhile, the debt (the loan balance of the Reverse Mortgage, including interest and fees) increases while the equity in your home decreases.

C. Will a Reverse Mortgage leave me in debt when I die?

With an FHA insured HECM Reverse Mortgage, the amount of your obligation to the lender or secondary market investor will not exceed the then market value or sales price of your home. With proprietary products, it is important to confirm you would not be in debt to the Reverse Mortgage lender or secondary market investor beyond the value of your home when you or your estate is required to repay this loan in full.

When the Reverse Mortgage product complies with HUD guidelines (whether a HECM or otherwise insured or uninsured), the Reverse Mortgage lender cannot demand an amount to satisfy this debt in excess of the market value of your home when it sells. If the Reverse Mortgage is a proprietary product, ask whether you are applying for a non-recourse loan. With non-recourse HECM products, the lender or secondary market investor do not have recourse to your income or other assets or to the income or assets of your heirs.

Should the loan term end for some other reason (such as if you move permanently to an assisted living facility or a nursing home), your home will have to be sold or the Reverse Mortgage must be paid in full some other way. If you plan to leave your home to your heirs to inherit, think twice before you obtain a Reverse Mortgage. With a Reverse Mortgage, the most you will be able to leave your children (heirs) is a reduced equity in your home at the time of your death after paying in full the Reverse Mortgage. It is likely that no equity will remain in your home to distribute to your heirs.

D. Is it risky to put myself into debt when I live on a fixed income?

The answer depends on your financial circumstances. There are certainly things to consider. Some of these will be discussed in Section IV of this booklet. Think of it this way: when you bought your home, you depended on money you did not yet have (your future income) to pay off the loan. With a Reverse Mortgage, the loan is paid in full when required with money or an asset you already have (the value of your home or the equity in your home backed by FHA insurance in a HECM product). An FHA insured lender offering a HECM program cannot require more. It is a way to convert existing home equity into an initial lump sum payment, income or cash flow, or a credit line without having to sell your home.

E. How much money can I receive?

The best answer is “it depends.” In general, the amount you can receive depends on seven issues:

1. The Reverse Mortgage product and program plan/option you select.
2. The age of the youngest eligible borrower when you obtain the loan.
3. The appraised value of your home when you obtain the loan.
4. The applicable interest rates (including the amount of adjustments in rate that occur depending upon product selected) and the amount of origination fees, closing costs, expenses, and periodic fees such as MIP and monthly service fees that will have to be paid.
5. The amount of equity in your home at the time of loan origination.
6. Whether the Reverse Mortgage is a FHA insured HECM product or otherwise is subject to HUD guidelines.
7. Whether the Reverse Mortgage is a proprietary product not insured by HUD/FHA.

Reverse Mortgage products typically provide the most cash to the oldest borrowers, who live in the most expensive homes, are located in markets of stable or increasing values, and when mortgage interest rates are low. The youngest borrowers receive the least cash, particularly if they live in less expensive homes located in markets of stable or declining values, and when mortgage interest rates are high. If the Reverse Mortgage is a FHA insured HECM product, you will likely receive more cash by electing a fixed interest rate program that provides for the entire loan proceeds to be funded at the time the loan is originated (when the loan escrow closes).

It is important to remember the amount you receive each month and the total amount you will receive over the life or term of the loan depends on the Reverse Mortgage product and the program plan/option you select. If the Reverse Mortgage is a FHA insured HECM product and you have selected a program that pays you monthly payments over the life or term of the loan, the interest rate will be adjustable and not fixed. Should you select a plan/option providing for monthly payments or for a credit line that are disbursed during the life or term of the loan, lenders and secondary market investors are reportedly requiring the use of the HECM adjustable rate program ARM Plan 857.

The use of an adjustable interest rate will affect the total amount of money you may receive from your Reverse Mortgage. This is because the lender and FHA, as the insurer of the applicable HECM adjustable rate program, must consider the debt you owe will increase by the interest rate (as adjusted) imposed over the life or term of the loan and this rate will adjust to a higher interest rate than your initial rate. For example, if the interest rate adjusts to 10% per annum and the accruing interest compounds annually, the amount owed on your Reverse Mortgage will be substantially greater than the amount borrowed when the loan was originated (at the close of the loan escrow).

The equity in your home should be sufficient to offset the principal sums you receive plus the potential substantial increase in interest rates when the loan program is subject to an adjustable rate and to pay for MIP during the loan term. Pursuant to HUD guidelines, an “Expected Interest Rate” is calculated in an effort to measure the amount of principal you may receive from the Reverse Mortgage (Principal Limit). The “Expected Interest Rate” is constantly recalculated relying upon assumptions regarding the rate of inflation (reflected by adjustments in the LIBOR) and upon an actuarial analyses of your life expectancy, among other related issues.

Particularly when considering proprietary products, you should be aware no single product or program plan/option works best for everyone. Again, with a HECM product that is FHA insured, your Reverse Mortgage program plans/options are limited, as we have previously discussed in this booklet.

F. How can I use the money from a Reverse Mortgage?

There are no restrictions on how you use the money from a Reverse Mortgage after the loan is originated and the loan escrow is closed. Some borrowers use the proceeds of the loan to repair or remodel their home. Others use the money to maintain or improve their lifestyle — free themselves from financial worries, take more trips, or keep the money in reserve (a line of credit) to handle future unplanned expenses. Still others receive regular monthly (periodic) payments to help pay their monthly bills or medical expenses. You may consider using a Reverse Mortgage as part of a comprehensive financial plan to ensure you have enough money to last throughout retirement. However, you may be limited when selecting program plans/options if your Reverse Mortgage is a FHA insured HECM.

While you may decide to buy annuities or other insurance or financial products with the proceeds from the Reverse Mortgage, these products may not lawfully be packaged with your Reverse Mortgage. *You may not engage in the purchase of any of these products with the proceeds from the Reverse Mortgage until your loan is originated and the loan escrow is closed*. It is unlawful for any lender or mortgage broker who helps you to obtain a Reverse Mortgage to package the Reverse Mortgage with an annuity or other insurance or financial product.

Until the Reverse Mortgage is originated, the loan escrow is closed, and your right to cancel the transaction has expired, no person can sell, offer to sell, try to sell, or refer you to someone who will try to sell you an annuity or other insurance or financial product. With limited exception, the proceeds of a Reverse Mortgage should not be used to fund new or existing annuity products or investments, such as stocks, bonds, mutual funds, or variable life insurance products. Prior to electing any investment subsequent to the close of your loan escrow, discuss your financial plans with an independent professional (such as an accountant, legal counsel, or certified or registered financial planner) who is not offering any of the insurance or investment products you are considering.

G. Do I qualify for a Reverse Mortgage?

Different Reverse Mortgage products may offer program plans/options with distinguishable predicates, but most programs:

- Require the youngest borrower to be at least 62 at the time the loan is originated and closed;
- Will offer loans on owner-occupied single-family

homes (some programs will also offer loans on 2-4 unit owner-occupied dwellings, on federally approved condominiums, on properties located in planned unit developments, or on manufactured homes affixed to permanent foundations);

- Will not offer loans on most mobile homes or on co-operative apartments, unless the property meets HUD eligibility standards (discuss this with your HUD counselor or counseling agency);
- Require your home to be your "principal residence," meaning you must live there more than half of each year;
- Require your home meet at least the general provisions of FHA's minimum property standards (you may be required to obtain independent property inspections by a qualified housing inspector or by a specific professional specialist such as an engineer, architect, or contractor);
- Require you pay in full any existing mortgage or other liens against your home before receiving the Reverse Mortgage, or use an immediate cash advance (initial lump sum payment) from the loan to retire these existing debts.

  Note: If you cannot pay in full the existing mortgage or other liens against your home, or the equity in your home is insufficient to support a large enough cash advance (initial lump sum payment) to accomplish this objective, you would be unable to obtain a Reverse Mortgage. When applying for a HECM Reverse Mortgage, you should review with the HUD counselor or counseling agency (as well as with the lender or mortgage broker) the amount of money required to pay in full existing mortgages or other liens as this may affect which program plan/option you select.

Income and credit history are generally not considerations for obtaining a Reverse Mortgage. However, if you are a year or more delinquent in your property taxes or insurance premiums, proprietary products often demand an amount up to three years of these taxes and premiums to be set aside in a reserve/escrow account from the loan proceeds. The reserves established with the lender of the proprietary product are used to pay future property taxes and insurance premiums. Delinquent property taxes or insurance premiums are to be brought current at the time the Reverse Mortgage is originated and the loan escrow closes. If your home is subject to delinquent property taxes or unpaid insurance premiums, a FHA insured Reverse Mortgage (a HECM loan product) might not be available.

H. What if one of the borrowers is under 62?

The younger borrower may be asked by the lender to execute a quitclaim deed releasing his/her interest in the home to the older borrower. Because of the significant consequences that may be involved with the use of a quitclaim deed, this option should not be exercised without first obtaining the advice of knowledgeable legal counsel representing you and the younger borrower. This may require separate legal counsel for each party or a waiver of conflict that you and the younger borrower would be required to sign. When the older borrower dies or permanently leaves the home, the Reverse Mortgage becomes due and payable, and the home may have to be sold or refinanced to pay in full the amount owed the lender.

When both borrowers are 62 or older and own the home as joint tenants, as community property (depending upon the fact situation), or in a family trust (depending upon how the trust is structured) and one dies or permanently leaves, the Reverse Mortgage does not need to be paid in full. The remaining borrower can continue to live in the home until he/she dies or permanently leaves the home, as defined. Should you and your partner hold title to your home as tenants-in-common or one borrower holds title as his/her sole and separate property, no presumptive right of survivorship exists under California law.

If you and your spouse can demonstrate through legally sufficient evidence the interest in the title to your home was intended to be held as part of the community property of each spouse and no will or device exists to the contrary, the question of survivorship may be altered through the process of a court ordered community property set aside. Where no right of survivorship or acceptable community property interest can be established, the surviving borrower may be obligated to pay in full the balance owing under the Reverse Mortgage. *These issues including how title to your home is held or is in the future to be held must be reviewed with knowledgeable legal counsel representing you prior to proceeding with a Reverse Mortgage*. You may also discuss this issue with the independent counselor or counseling agency you have selected *understanding that legal advice is ultimately required*.

I. How much will a Reverse Mortgage cost me?

"It depends." Because costs may significantly vary between lenders and may be difficult to compare, a standard of comparison has been developed called Total Annual Loan Cost ("TALC"). You should ask the independent counselor or counseling agency you have selected to discuss with you the TALC, and you will want to review with the lender or mortgage broker through whom you are obtaining your Reverse Mortgage the TALC that applies to the loan product you are considering.

In general, there are three categories of fees, costs, and expenses:

1. When you apply for a Reverse Mortgage, some lenders charge an application fee. The fee typically includes the charges for an appraisal report to estimate how much your home is worth as of the date of the appraisal, a review of appropriate records to see if you are delinquent on any federally insured loans, for credit reports on you and your partner (if requested by the lender), and for an independent housing inspection should that become necessary.

   Should you pay an application fee, this out-of-pocket charge may not be refunded if you later change your mind about accepting the Reverse Mortgage. Some lenders and mortgage brokers may not charge an application fee or any other advance fees such as for appraisal and credit reports. For example, California Real Estate Law prohibits mortgage brokers from imposing advance fees (except for the appraisal and credit reports in the exact amounts paid to each of these service providers) without prior approval from the Department of Real Estate. Many lenders will include these fees at the time the loan transaction closes by paying them from the Reverse Mortgage proceeds and *may be required to do so in this manner if it is an FHA insured HECM product. You should ask the lender or mortgage broker about these fees before proceeding with an application for a Reverse Mortgage.*

2. As part of the origination and closing of the Reverse Mortgage (signing), certain fees, costs, and expenses are paid by you. Most of them can be financed from the loan proceeds and will accrue interest during the life or term of the loan. Many of these fees are similar to those for conventional mortgages and others are unique to Reverse Mortgages. The two fees that often vary among lenders and mortgage brokers are the origination fee and the ongoing fees for servicing the loan (the monthly or periodic service fee). You should specifically check these fees when comparing Reverse Mortgage products. Monthly service fees typically range from $25 to $35.

3. If the Reverse Mortgage is an FHA insured HECM product, the premiums for the mortgage insurance coverage are imposed both up front and during the life or term of the loan. As of the date of the revision of this booklet, the up front FHA Mortgage Insurance Premium ("MIP") for a HECM product is 2% of the original loan amount up to a maximum of $12,510. This up front premium is based upon a maximum HECM loan of $625,500. The MIP is also imposed during the life or term of the loan. During the loan term, the MIP is charged monthly and is based upon an annual rate of 0.5% of the outstanding loan balance.

   The mortgage insurance coverage extended by HUD/FHA for the payment of the MIP includes the continued monthly or periodic payments due to you, even if the lender or secondary market investor becomes insolvent or ceases to exist. In addition, the FHA insurance coverage includes paying the lender or secondary market investor the difference between the then market value or sales price of your home and the loan balance of your Reverse Mortgage (including principal and accrued interest) when the loan becomes due and payable in full. For example, your home sells in an "arm's length transaction" at $400,000 and the total amount owed on your Reverse Mortgage is $500,000, including accrued interest. The lender or investor should receive the additional $100,000 ($500,000 - $400,000) as a claim against the FHA insurance policy under the coverage extended.

Other Reverse Mortgage products may include shared appreciation or equity participation. In the past, some lenders offered Reverse Mortgage products that shared in the anticipated appreciation of the market value of your home or demand participation in the equity that may remain at the end of the term of your loan. Most of these products have disappeared due to significant declines in market values of real property occurring at the time of the revision of this booklet. *You should not consider these particular loan products without prior advice from knowledgeable legal counsel representing you and no other party to the transaction.*

Recent California legislation has authorized the use by lenders offering proprietary products of either fixed or adjustable interest rates (or combinations of each), including compound interest. In addition, the legislation allows for the accrual of interest that is contingent on the market value of your home when the Reverse Mortgage matures according to the loan terms. When considering such products, you should ask the HUD counselor or counseling agency how Reverse Mortgage programs with contingent interest function. *Knowledgeable legal counsel acting only in your behalf should review contingent interest programs in advance of proceeding with this plan/option.*

Discuss with the independent counselor or counseling agency the advantages and disadvantages of a Reverse Mortgage relying on other than a fixed interest rate. HECM loan products are subject to federal regulations that control the manner through which adjustable interest rates are initially established and subsequently increased during the life or the term of the loan.

Federal standards will generally preempt state law to the contrary when the Reverse Mortgage is an FHA insured HECM product. When comparing Reverse Mortgage products, check to see if there are any additional or distinguishable fees charged at the maturity of a fixed interest rate as compared to an adjustable interest rate loan.

J. What is expected of me as a homeowner during the life or term of the Reverse Mortgage (a review)?

The general requirements are:

- pay your property taxes on time.
- keep your homeowner insurance premiums paid.
- maintain your home in good repair.
- pay assessments and fees when due to the homeowners association (as applicable).

K. What about interest rates (a review)?

Reverse Mortgage products include programs with fixed as well as adjustable interest rates. The interest rates for the Reverse Mortgage product you select will vary depending upon market conditions. The interest rate may also vary depending upon the program you select. HECM loan products are subject to certain limitations regarding the amount of and adjustments in interest rates. Interest rates of proprietary products are typically established by market competition and market conditions operative at the time of your loan application.

Adjustable rate programs can be more complex to evaluate. You do not know and will not be able to control whether interest rates will be high or low. This may create additional uncertainties and make it harder to plan. As previously mentioned, the HECM program you select limits the difference among lenders in adjustable interest rate programs. However, interest rates imposed by Reverse Mortgage lenders are usually a bit higher than for conventional mortgages. You should shop around before deciding on a Reverse Mortgage product, particularly when proprietary products return to the market.

L. When will the Reverse Mortgage loan term end and how much will I owe when the loan matures?

The Reverse Mortgage loan term ends when the last surviving co-borrower dies, moves away and permanently leaves the home; or the home is sold or title to the home is transferred. Some Reverse Mortgage products have established a specified period of time or due date when the loan term ends and the loan becomes due and payable in full. If the Reverse Mortgage product provides for a specified term (for example 10 years), it would become due and payable in full at the end of the specified term.

Some Reverse Mortgage products allow the loan to remain active even though the monthly payments of income or cash flow have ceased. It is also possible the Reverse Mortgage could terminate and become due and payable if you fail to meet your obligations under the terms of the Reverse Mortgage. Depending upon the product and the specific program, lenders of Reverse Mortgages may work with you to meet these requirements, including the payment of property taxes and insurance premiums, the maintenance of your home, and the payment of assessments and fees imposed by your homeowners association (as applicable).

The amount you owe at the end of the Reverse Mortgage loan term (your loan balance) consists of:

- The money you borrowed, including any loan proceeds you used to pay origination fees and other loan closing costs including MIP.
- The accrued interest on the money received and any financed fees, costs, and expenses — up to the loan limit of the Reverse Mortgage (the Principal Limit), which is estimated based upon defined calculations including the anticipated market value of your home when the loan becomes due and payable in full. With proprietary products, you should ask about whether the loan limit may exceed the market value of your home at the end of the loan term and, in such circumstances, whether your income or assets other than your home can be used by the lender to pay the loan in full (i.e., will the excess portion of the loan be due

and payable by you or is the loan non-recourse to you).

- In FHA insured HECM Reverse Mortgage products, the Principal Limits are calculated in the expectation that the amount owing will not exceed the market value or sales price of your home when your loan becomes due and payable in full. The FHA insurance will cover any short fall due the lender or the secondary market investor between the amount owing and the then market value or sales price of your home.

M. How do I pay off the Reverse Mortgage (a review)?

In most cases, the loan is due and payable when the last surviving borrower dies or permanently moves from the home, as defined. Some borrowers choose to prepay in full the Reverse Mortgage. There are three ways of paying off the loan:

1. You or your heirs can sell your home and use the proceeds to repay the loan. The sale should cover the loan amount and, depending upon market conditions, the sales proceeds may net more than the loan. Proceeds of the sale beyond what is required to pay off the Reverse Mortgage, if any, belong to you or your heirs (this would be the remaining equity in your home in any such equity exists). With FHA insured HECM Reverse Mortgage products, the lender cannot demand more than the market value or sales price of your home. Your income and other assets and the income and assets of your heirs are safe. Should proprietary products return to the market, these Reverse Mortgages may impose the obligation on your estate or your heirs to pay the amounts owing that exceed the then market value or sales price of your home when the loan becomes due and payable in full.
2. Other assets you or your heirs have may be used to pay off the loan (for example, life insurance, stock, or mutual funds). Thus, the lender or secondary market investor is paid in full and you or your heirs keep your home.
3. If there is enough equity left, you or your heirs may refinance your home (typically with a conventional

mortgage) and pay off the Reverse Mortgage with the proceeds of the new loan.

N. How does a Reverse Mortgage affect public assistance benefits (a review)?

Social Security and Medicare benefits are not affected under existing law, since these benefits are not based on income or assets. Supplemental Security Income (SSI) and Medicaid/MediCal are subject to income constraints imposed upon the recipients. Therefore, you should review these public assistance benefits with the HUD counselor or counseling agency you have selected and with qualified professionals of your own choosing prior to proceeding with a Reverse Mortgage.

Loan advances from the Reverse Mortgage in the form of monthly payments or credit line disbursements do not affect such benefits if you spend these advances during the month in which you receive them. If you do not spend these loan advances in the calendar month when received (for example, keep them in a savings or checking account), the advances may count as "liquid assets" and this could affect your eligibility for "needs based" public assistance benefits. An annuity product purchased with the proceeds of a Reverse Mortgage may also make you ineligible for "needs based" public assistance benefits.

Check with the local SSI or Medicaid/Medical office, a knowledgeable legal counsel who deals with senior citizen issues, a tax professional, or a HUD counselor or counseling agency to clear up any specific questions you may have regarding "needs based" public assistance benefits. Additionally, be aware that these laws are subject to change, including Social Security and Medicare benefits. Federal and state legislative changes may occur regarding the health care you receive, including the offering of private health insurance coverage. Remember, you cannot be offered or be required to purchase an annuity or other insurance or financial products as a predicate to obtaining a Reverse Mortgage.

O. What about income taxes (a review)?

Typically, the IRS does not consider loan payments or credit line disbursements made to you under a Reverse

Mortgage as income. Accordingly, these advances from loan proceeds would generally not be subject to income tax. However, qualified professionals should review your individual tax situation to determine the tax consequences regarding disbursements from a Reverse Mortgage. The interest the lender charges you on the loan may not be deducted until the interest is paid at the end of the life or the term of the Reverse Mortgage. As indicated above, any annuities you elect to purchase with loan proceeds after your Reverse Mortgage is originated and the loan escrow is closed may count as taxable income. Ask a tax professional, a knowledgeable legal counsel, or a HUD counselor or counseling agency for specific advice regarding income taxes and these issues prior to proceeding with a Reverse Mortgage.

III. Reverse Mortgages — The Process

In this section, we discuss obtaining a Reverse Mortgage product and some of the issues to think about in the process. This section describes the steps involved and reviews the different programs available.

A. Why detailed costs and benefit comparisons are not included in this booklet.

This booklet does not include detailed costs and benefit comparisons of program plans/options for two reasons:

1. Costs and benefits may depend on local conditions — housing prices, interest rates, etc., which change with location and time. Any general comparison might be misleading.
2. Many HUD counselors or counseling agencies, as well as professionals such as knowledgeable legal counsel, lender representatives, or mortgage brokers familiar with Reverse Mortgage products have computer software that may provide you with detailed analyses and comparisons of loans available in your community that meet your needs. However, it is important to obtain independent advice, particularly when considering information provided by lender representatives or mortgage brokers. Information regarding locating independent counselors and counseling agencies is included in Section V of this booklet.

B. What are the notice and checklist requirements?

Prior to proceeding with an application for a Reverse Mortgage product, your lender is required to provide you with the following notice in 16-point type or larger advising of your right to obtain independent counseling (unless you have already received such counseling):

IMPORTANT NOTICE
TO REVERSE MORTGAGE LOAN APPLICANT

A REVERSE MORTGAGE IS A COMPLEX FINANCIAL TRANSACTION. IF YOU DECIDE TO OBTAIN A REVERSE MORTGAGE LOAN, YOU WILL SIGN BINDING LEGAL DOCUMENTS THAT WILL HAVE IMPORTANT LEGAL AND FINANCIAL IMPLICATIONS FOR YOUR AND YOUR ESTATE. IT IS THEREFORE IMPORTANT TO UNDERSTAND THE TERMS OF THE REVERSE MORTGAGE AND ITS EFFECT. BEFORE ENTERING INTO THIS TRANSACTION, YOU ARE REQUIRED TO CONSULT WITH AN INDEPENDENT LOAN COUNSELOR. A LIST OF APPROVED COUNSELORS WILL BE PROVIDED TO YOU BY THE LENDER. SENIOR CITIZEN ADVOCACY GROUPS ADVISE AGAINST USING THE PROCEEDS OF A REVERSE MORTGAGE TO PURCHASE AN ANNUITY OR RELATED FINANCIAL PRODUCTS. IF YOU ARE CONSIDERING USING YOUR PROCEEDS FOR THIS PURPOSE, YOU SHOULD DISCUSS THE FINANCIAL IMPLICATIONS OF DOING SO WITH YOUR COUNSELOR AND FAMILY MEMBERS.

Additionally, you cannot submit an application for a Reverse Mortgage until the lender or your counseling agency has provided you with a written checklist. The checklist outlines the issues you should discuss with your counselor. These issues are as follows:

1. How unexpected medical or other events that cause the prospective borrower to move out of the home earlier than anticipated, either permanently or for more than one year, will affect the total annual loan cost of the mortgage.

2. The extent to which the prospective borrower's financial needs would be better met by options other than

a Reverse Mortgage including, but not limited to, less costly home equity lines of credit, property tax deferral programs, or governmental aid programs.

3. Whether the prospective borrower intends to use the proceeds of the Reverse Mortgage to purchase an annuity or another insurance product and the consequences of doing so.

4. The effect of repayment of the loan on non-borrower residents of the home after all borrowers have died or permanently left the home.

5. The prospective borrower's ability to finance routine or catastrophic home repairs, especially if maintenance is a factor that may determine when the mortgage becomes payable.

6. The impact that the Reverse Mortgage may have on the prospective borrower's tax obligations, eligibility for public assistance programs, and the effect losing equity in the home will have on the borrower's estate and heirs.

7. The ability of the borrower to finance alternative living accommodations, such as assisted living or long-term care nursing home registry, after the borrower's equity is depleted.

C. What steps should I take to determine if a Reverse Mortgage is right for me?

1. The first step is to find out how much money you have coming in as income and how much you have going out as expenses for an accurate idea of your financial needs. This will become very important as you examine Reverse Mortgage products and the various program plans/options offered by each lender. The approach suggested follows an outline provided by the Federal National Mortgage Association (also known as Fannie Mae). A complete outline may be obtained from Fannie Mae or may be available from HUD/FHA. For contact information, see Section V, Resources Pages.

    - Assemble all of your records that show sources of income and expenses experienced for at least the past year.

- List the sources and the funds of spendable income available to you. Do not include interest or other earnings that are reinvested ("rolled over").
- List all your expenses. These may include: mortgage payments, other contract or revolving debts, utilities, food, income taxes, property taxes, maintenance of your home, property and other ongoing insurance premiums, transportation, medical and dental expenses not covered by insurance, medical insurance premiums, clothing, recreation, gifts, holidays, vacations, assessments and fees imposed by a homeowners association (as applicable), etc.
- Analyze your cash flow. You will probably see ways to achieve a more efficient use of your liquid assets.

2. Make a budget for the next 12 months as an illustration of future annual budgets. Estimate the income and expenses you expect over the next year and consider potential increases in expenses for future years.
   - Using your cash flow statement, list regular monthly income and non-monthly income you expect each month for the next year — the amounts and the sources. Add the monthly and non-monthly amounts together to get an annual total.
   - Repeat the same analysis for expenses for the next year and so on.
   - Compare annual income and expense totals. If your total expected expenses are more than your total expected income, this indicates the amount of additional funding required to meet your needs that may be available from a Reverse Mortgage product.
   - Now that you have the numbers, list your financial goals in their order of importance. Start by thinking about your needs and wants, presently and for the future. This gives you a good starting place, even though your goals may change. Now list the estimated costs to meet each of these

goals. To calculate your funding needs as a "lump sum," multiply the annual total by the number of years you plan to remain in your home (this includes considering your life expectancy).

3. The next step is to locate a HUD Reverse Mortgage counselor or counseling agency. To identify the HUD approved counseling agencies available in your community or otherwise accessible, review the list of counseling agencies included in Section V at the end of this booklet. In addition, use the Internet from home, at the local library, or through local senior citizen centers with public access to the internet to identify the agencies located closest to your home. A list of websites, phone numbers, publications, and available resources are also included at the end of this booklet in Section V. For the most up-to-date and detailed information, become acquainted with the HUD website, www.hud.gov and the National Center for Home Equity Conversion (NCHEC) website, www.reversemortgagemonitor.org. In addition, your library may be a source for literature that will help you learn more about Reverse Mortgages.

   Some professionals practicing in real estate, mortgage lending or brokerage, financial planning, tax or legal advice often have an incomplete understanding of Reverse Mortgages. If you do your homework, you may be surprised to find you will develop a more complete understanding than many of these professionals. The list in Section V is current as of the last date of the revision of this booklet. However, it may not be up-to-date when you are reviewing this booklet. It is for this reason you may wish to double check the HUD and NCHEC websites.

Recent amendments to California law require Reverse Mortgage lenders to provide a list of not fewer than ten nonprofit counseling agencies located in this state that have been approved for this purpose by HUD. A toll-free number (800-569-4287) may also be used to locate HUD-approved counselors. NCHEC "Preferred Counselors" work for nonprofit or public agencies, not lenders. They have detailed local information about lenders and mortgage brokers, Reverse Mortgage products, and various program plans/options, including typical fees, costs, expenses, and other alternatives to consider. They pledge to:

- Discuss plans/options including alternatives to Reverse Mortgages.
- Be unbiased and consider what is in your best interest.
- Be independent.
- Protect your privacy.

Any counselor or counseling agency you use should be willing to make a similar pledge to you.

D. Why meet with an independent HUD counselor or counseling agency before you contact a lender (a review)?

There are several good reasons:

- May help you consider the plans/options available to you, as well as other alternatives, some of which may not involve obtaining a Reverse Mortgage.
- May provide you with a list of the Reverse Mortgage lenders and mortgage brokers active in your area, but *may not steer you to any specific or particular lender or mortgage broker or to a selected list of lenders or brokers.* You may be surprised how many lenders and mortgage brokers are pursuing Reverse Mortgage products. This is due in part to the limited market available for traditional and alternative residential mortgage loan products, i.e., conventional loans when this booklet was revised.
- May give you a written "Personal Reverse Mortgage Analysis" and a comparison of the Reverse Mortgage products and program plans/options available in your area.
- May recommend other sources of advice you may need, but *may not direct you to any individual professional for such advice.*
- May not impose any pressure to apply for a Reverse Mortgage.
- At the end of the counseling session, you are to

receive a HUD Certificate of HECM Counseling that you will need if you apply for a FHA insured HECM Reverse Mortgage product, or even if you apply for a proprietary loan product.

Should you be unable to locate a counselor or counseling agency within driving distance (most of them are located in urban areas), you may consult with one by telephone. In California, Reverse Mortgage products and program plans/options require counseling before applying for such a loan. Generally, independent counseling is in your best interest.

One more note: Not all counselors or counseling agencies are equally knowledgeable. It is okay to ask how long the counseling agency has been offering this type of counseling service and how many clients/homeowners they have worked with regarding Reverse Mortgage products.

Should your principal language be other than English, the lender and mortgage broker (if applicable) must comply with California law. If negotiations with you regarding the Reverse Mortgage product and program plans/options occur in other than English, the documents and agreements are to be translated in the language you used. The languages described in California law for which translations are required include, Spanish, Chinese, Tagalog, Vietnamese, or Korean.

Your next step is to locate a lender or mortgage broker who offers Reverse Mortgage products. You can also find information in Section V about trade associations formed by and that represent lenders and mortgage brokers. Applying for a Reverse Mortgage is similar to applying for a conventional mortgage (whether a traditional or alternative loan product). However, the process is somewhat more complicated because you may have several product and program plans/options to consider, particularly when proprietary products return to the market. These options may include an initial lump sum payment, a line of credit, monthly payments for the life or during the term of the loan, monthly payments for a specific term, or some combination of each.

The usual inspection, appraisal, title insurance, and escrow and recording fees may be imposed when obtaining a Reverse Mortgage. Should a mortgage broker arrange the Reverse Mortgage product you have selected, brokerage fees will be included. These fees may be in addition to or be a part of the lender's origination fees. Ask the mortgage broker about the payment of the brokerage fees.

Typically, more fees, costs, and expenses are imposed than with a conventional mortgage. A significant additional cost is the HUD/FHA MIP for a HECM loan product. The lender and mortgage broker (if applicable) are each required by law to disclose the total fees, costs and expenses of a Reverse Mortgage product before you become obligated to proceed. In Section II of this booklet, we have previously described the total fees, costs, and expenses as the TALC.

The lender is to provide you with a federal Truth-In-Lending Act ("TILA") disclosure statement and a federal Good Faith Estimate ("GFE") required under the Real Estate Settlement Procedures Act ("RESPA"). The mortgage broker is to provide you with a California Mortgage Loan Disclosure Statement ("MLDS") and with a GFE prepared and completed by the broker. Further, the mortgage broker is to provide you with a disclosure of the agency relationship(s) occurring in the contemplated transaction and you will be asked to consent to this disclosure. The mortgage broker will be representing you as your agent and fiduciary and may be performing as a dual agent, i.e., also representing the lender.

You may find the information disclosed difficult to understand. A HUD counselor or counseling agency or a knowledgeable legal counsel familiar with issues affecting senior citizens representing you can help you make sense of the disclosures. Should you be confused at any time, *ask to have the disclosures and any information you received explained in a manner you can understand.*

After the lender processes the Reverse Mortgage product you have selected, there is a closing (signing) of the loan documents, related disclosures and notices of rights. Do not be surprised at the number of pages you will have to sign or initial. Read everything before you sign and always be sure you understand what you are signing. *This* *means each loan transactional document, disclosure, and notice of rights. Ask to speak* <u>*directly*</u> *with the escrow officer representing the escrow holder and* <u>*directly*</u> *with an authorized representative of the lender or of the mortgage broker (if applicable) from or through whom the Reverse Mortgage is being obtained.*

By law, you have three business days after signing to change your mind and cancel the loan transaction. After the three days and the Reverse Mortgage escrow closes, you have access to the money under the payment plan/option you selected. If there is an existing mortgage or other lien against your home, these liens must be paid in full at the loan closing.

IV. Reverse Mortgages — Things to Consider

A. Things to consider before applying for a Reverse Mortgage.

- *Scams and frauds*
  Although most Reverse Mortgage lenders and mortgage brokers are ethical, some scams and frauds have been reported. If you receive an offer by phone or mail from an "estate planning" service to put you in touch with a Reverse Mortgage lender or broker, the solicitor may want you to pay a substantial fee for that service. Be careful of solicitations that come by phone or by mail.

  Estate or financial planning services are required to be independent from a Reverse Mortgage lender or broker, and the persons providing such services may not engage in activities for which a real estate license is required. Solicitation of Reverse Mortgage products for compensation or expectation of compensation by other than the lender is an activity for which a real estate license is required. HUD/FHA, Fannie Mae and most other lenders or investors will not allow fees to be paid for estate or financial planning services. This information is generally available at little or no cost from a HUD counselor or counseling agency and may be available for other sources such as your local library or an appropriate Internet site. *Do not sign an agreement that includes a fee for estate or financial planning services when applying for a Reverse Mortgage*.

As the market has matured, several reputable lenders and mortgage brokers provide consumer information and offer their Reverse Mortgage products through direct mail. You will need to confirm the legitimacy and reputation of the source of any direct mail solicitation. Remember, *you cannot be required to purchase annuities or other insurance or financial products as a predicate to obtaining a Reverse Mortgage.*

- *Alternatives to Reverse Mortgages*
  There may be alternative ways of obtaining financial relief without taking out a Reverse Mortgage product. For example, if there is a problem making property tax payments, the California State Franchise Tax Board offers a tax postponement service that works much like a Reverse Mortgage. It is available to homeowners who are 62 or older, own their home (there can be a mortgage), and have an annual income of $24,000 or less. The interest rate may be lower than for a Reverse Mortgage product. The phone number to obtain an application and further information is 800-952-5661.

  If the home is in need of repairs that you cannot afford to make, your local Housing and Redevelopment Agency may have a Senior Loan Program that can help. These loans also do not require repayment until the home is sold or you move out or permanently leave your home, as defined. Interest rates are either low or there is no interest charge imposed upon you. Programs for emergency repairs such as building ramps, widening doorways, etc. may also be available. Check the white pages of your phone book under your county or city name followed by "Housing."

  Assistance programs may be available for those with special needs — blind, disabled, veterans — through these same agencies. A HUD Reverse Mortgage product counselor or counseling agency will have the most current information about these programs in your area.

If you decide to obtain a Reverse Mortgage after you have signed up for any of these assistance programs, ask if they can be subordinated to the Reverse Mortgage. Subordination means that you do not have to pay off the loan made in connection with the assistance program to obtain the Reverse Mortgage product. Instead, the assistance loan becomes secondary in priority to the Reverse Mortgage product. Many agencies will consider subordination, if they believe it is appropriate for you.

B. Things to consider before closing the loan (a review).

- Compare loan fees, costs, and expenses. Federal Truth-in-Lending Act ("TILA") and the Real Estate Settlement Procedures Act ("RESPA") each require the lender to disclose the Total Annual Loan Cost ("TALC") on Reverse Mortgages at various points in time. However, lenders are not required to complete and deliver TILA disclosures and the federal Good Faith Estimate ("GFE") until after a credit report is obtained on you or otherwise when you apply (as defined) for a Reverse Mortgage product. Remember, you are entitled to cancel the loan transaction within three business days after receipt of the TILA disclosure.

- NCHEC "Preferred Counselors" and some lenders have Personal Reverse Mortgage Analysis software to provide an advance analyses of the Reverse Mortgage product for which you intend to apply. Advance analyses represent another good reason to consult a HUD counselor or counseling agency before you apply for a Reverse Mortgage product.

- Among the most important variables in the total fees, costs, and expenses of Reverse Mortgages are the distinguishable fees that are charged at the beginning and during the life or term of the loan. These could include origination fees, points, mortgage broker fees (if applicable), mortgage insurance premiums, closing costs and monthly servicing fees. Be sure you know what you are committing to pay.

- Most fees, costs, and expenses are assessed at the loan origination (when the loan escrow closes) and are in the first few years a large portion of the total loan charges. Terminating a Reverse Mortgage early such as after a year or two can be very costly.

- In the past, many lenders and mortgage brokers sold Reverse Mortgage products from proprietary sources in addition to the HECM products. When proprietary products return to the market, be sure you understand which product and program plan/option you are considering.

- Be aware of "shared appreciation" or "shared equity" fees. While shared appreciation or shared equity loans are typically offered only when property values are increasing, you need to be aware of these products and related programs. These products and programs may work for you, however, they give the lender or investor a share of any increase in the value of your home between the time the loan is closed and when the loan term ends (usually in return for a larger loan amount). These products and programs can significantly increase the cost of a Reverse Mortgage.

- Reverse Mortgage documents can be long and confusing. At the closing, you will be expected to sign or initial many pages. *If you find any of the terms confusing or you are uncertain about what they commit you to do, obtain independent advice before you sign.* Remember, you may not consider or be required to accept an annuity or other insurance or financial products as a predicate to obtaining a Reverse Mortgage. These products can be subject to undisclosed income tax and "needs based" public assistance limitations depending on the contract language and the law existing at that time.

C. Things to consider during the life of the loan (a review).

- Refinancing a Reverse Mortgage can be very costly. HUD programs offer some flexibility in the way payments are made that may make refinancing unnecessary. Consider the fees, costs, and expenses carefully before deciding to refinance. HUD's new program guidelines allow a borrower to refinance into another HECM to access growing equity and pay MIP only on the increased amount of the new loan. This helps reduce refinancing fees, costs, and expenses.

- Be sure to keep current your property taxes, homeowner insurance premiums, and assessments and fees imposed by the homeowners association, if applicable. Failing to do so may lead to additional charges from the lender or investor and may result in the premature termination of your Reverse Mortgage. If you are having difficulty making any of these payments, contact your lender or the identified servicing agent. It may be possible to arrange to make these payments using loan funds from your Reverse Mortgage.

A Reverse Mortgage product may be exactly what you need to maintain or improve your lifestyle or to continue your financial independence. Other alternatives may work better or be less expensive. To be sure the correct decision is made requires you to be well informed before proceeding with a Reverse Mortgage.

The following section provides pointers to more detailed and specific information regarding resources available to you.

V. Resources

This section contains a list of from whom more detailed information may be obtained about Reverse Mortgages. Contacting these sources will give you a more complete picture of the Reverse Mortgage market and its issues.

What information is available?

At this time, the Internet has the most information sources. Most of them cover the same basic subjects discussed in this booklet but a few contain additional information. If you are unfamiliar with how the Internet works, the staff at your library or senior citizen center can help you. Addresses and toll-free phone numbers you can use to become better informed are listed.

- **National Center for Home Equity Conversion (NCHEC)**
  360 N. Robert, Suite 403
  St. Paul, MN 55101
  1-651-222-6775
  www.reversemortgagemonitor.org

  NCHEC is an independent, nonprofit organization dedicated to helping seniors make educated decisions about Reverse Mortgages.

- **AARP Home Equity Information Center**
  601 E Street N.W.
  Washington, DC 20049
  Toll-Free Nationwide: 888-OUR-AARP (888-687-2277)
  Toll-Free TTY: 877-434-7589
  Toll-Free Spanish: 877-MAS-DE50 (1-877-627-3350)
  International Calls: +1-202-434-3525
  Hours: Monday to Friday: 7 a.m. through 11 p.m. ET
  http://www.aarp.org/money/credit-loans-debt/reverse_mortgages/

  This website is a good source of basic information and tips on selecting counselors and lenders. They also publish a free consumer's guide on Reverse Mortgage borrowing, "Home Made Money." This guide can be read on-line or printed from http://assets.aarp.org/www.aarp.org_/articles/revmort/homeMadeMoney.pdf

- **U.S. Department of Housing and Urban Development**
  Washington, DC 20410-8000
  1-888-466-3487 – Reverse Mortgages
  1-800-217-6970 – RESPA Counseling
  http://www.hud.gov/buying/rvrsmort.cfm

  This website provides useful information about senior housing issues. This includes information about HECM and Fannie Mae programs and lists HUD-approved counselors and lenders.

- **Federal National Mortgage Association (Fannie Mae)**
  3900 Wisconsin Avenue, N.W.
  Washington, D.C. 20016
  1-800-732-6643
  www.fanniemae.com

  This website contains descriptions of HECM and Fannie Mae programs, answers to frequently asked questions, lender information and the complete financial needs assessment outline mentioned earlier. They also publish a free guide, "Money from Home: A Consumer's Guide to Reverse Mortgages," which can be read online or printed from http://www.fanniemae.com/global/pdf/homebuyers/moneyfromhome.pdf

- **Consumers Union, West Coast Regional Office**
  1535 Mission Street
  San Francisco, CA 94103
  1-415-431-6747
  www.consumersunion.org

  Consumers Union has several publications ("Guarding the Golden Years. Reverse Mortgages" and "Reverse Mortgage Consumer Tip Sheet") that describe benefits and things to look out for with Reverse Mortgages. Both of these can be printed from the website. They have published a detailed, 67-page analysis of the advantages and pitfalls of Reverse Mortgages for California consumers, "There's No Place Like Home:

The Implications of Reverse Mortgages on Seniors in California." This publication can be read online or printed from *http://www.consumersunion.org/pdf/reverse.pdf*

- **National Reverse Mortgage Lenders Association**
  1400 16th St., NW
  Suite 420
  Washington, DC 20036
  1-202-939-1760
  www.reversemortgage.org/

  This website includes detailed overviews of the HECM and Fannie Mae) programs. There is also a list of lenders. The nonprofit association is funded by member lending institutions.

- **Mortgage Bankers Association**
  1717 Rhode Island Avenue, NW
  Suite 400
  Washington, DC 20036
  1-202-557-2700
  http://www.mortgagebankers.org/default.htm

- **California Mortgage Bankers Association**
  555 Capitol Mall, Suite 440
  Sacramento, CA 95814
  1-916-446-7100
  Fax: 1-916-446-7105
  info@cmba.com
  http://www.cmba.com/new/

- **NAMB, The Association of Mortgage Professionals**
  2701 West 15th Street., Suite 536
  Plano, TX 75075
  1-972-758-115
  Fax: 1-530.484.2906
  http://www.namb.org/namb/Default.asp

- **CAMP, California Association of Mortgage Professionals**
  1225 Eighth Street, Suite 425
  Sacramento, CA 95814
  1-916.448.8236
  Fax: 1-916.442.3616
  http://www.ca-amp.org

- **California Mortgage Association**
  2520 Venture Oaks Way, Suite 150
  Sacramento, CA 95833
  1-916-239-4080
  Fax: 1-916-924-7323
  http://www.californiamortgageassociation.com

National HECM Counseling Network
Increasing demand for HUD's HECM product by senior citizens, has put pressure on the counseling industry to meet the demand for the required counseling. To make sufficient quality Home Equity Conversion Mortgage (HECM) counseling available, HECM counselors from the below agencies are permitted to provide face-to-face and telephone counseling nationally. Please contact them to obtain HECM counseling.

National Foundation for Credit Counseling
(866) 698-6322

Money Management International
(877) 908-2227

Consumer Credit Counseling Svc of Atlanta
(866) 616-3716

National Council on Aging
(800) 510-0301

ClearPoint Financial Solutions
(877) 877-1995

Springboard
(800) 947-3752

Neighborhood Reinvestment Corporation
(888) 990-4326

HUD Home Equity Conversion Mortgages (“HECM”) Counseling Roster

FHA funds housing counseling agencies throughout the state that can provide information on Reverse Mortgages. To find a HECM counselor near you, visit the FHA HECM Roster that follows or call (800) 569-4287.

AVENIDAS
450 Bryant Street
Palo Alto, CA 94301
(650) 289-5433
http://www.avenidas.org

CABRILLO ECONOMIC DEVELOPMENT CORP
702 County Square Drive
Ventura, CA 93003
(805) 659-6868 ext 130
http://www.cabrilloedc.org

CCCS OF SAN FRANCISCO
595 Market Street 15TH Floor
San Francisco, CA 94105
(415) 788-0288
https://www.cccssf.org/

CLEARPOINT FINANCIAL SOLUTIONS INC.
4636 Watt Avenue, Second Floor
North Highlands, CA 95660
(800) 750-2227
http://www.clearpointccs.org

CLEARPOINT FINANCIAL SOLUTIONS INC.
412 W. Broadway, Suite 212
Glendale, CA 91204
(800) 750-2227
http://www.clearpointccs.org

CLEARPOINT FINANCIAL SOLUTIONS INC.
1605 E Palmdale Blvd., STE. E
Palmdale, CA 93550
(800) 750-2227
http://www.clearpointccs.org

CLEARPOINT FINANCIAL SOLUTIONS INC.
16800 Devonshire, STE. 301
Granda Hills, CA 91344

(800) 750-2227
http://www.clearpointccs.org
CLEARPOINT FINANCIAL SOLUTIONS INC.
1101 Standiford Ave., Suite D-4
Modesto, CA 95350
(800) 750-2227
http://www.clearpointccs.org

CLEARPOINT FINANCIAL SOLUTIONS INC.
242 E. Airport Road, #210
San Bernardino, CA 92408
(800) 750-2227
http://www.clearpointccs.org

CLEARPOINT FINANCIAL SOLUTIONS INC.
6001 E. Washington Blvd.
Los Angeles, CA 90040-2922
(800) 750-2227
http://www.clearpointccs.org

CLEARPOINT FINANCIAL SOLUTIONS INC.
4969 E McKinley Ave. Ste. 107
Fresno, CA 93727-1968
(877) 877-1995
http://www.clearpointccs.org

CONSUMER CREDIT COUNSELING SERVICE OF ORANGE COUNTY
1920 Old Tustin Ave.
Santa Ana, CA 92705
(714) 547-2227
http://www.cccsoc.org

EDEN COUNCIL FOR HOPE AND OPPORTUNITY (ECHO)
770 A Street
Hayward, CA 94541-3956
(510) 581-9380
http://www.echofairhousing.org

INLAND FAIR HOUSING AND MEDIATION BOARD
City Center Building
10681 Foothill Blvd., Suite 101
Rancho Cucamonga, CA 91730

(909) 984-2254 ext 114
http://www.inmedbd.com
LEGAL SERVICES OF NORTHERN CALIFORNIA - SENIOR LEGAL HOTLINE
517 12TH Street
Sacramento, CA 95814
(916) 551-2140
http://www.seniorlegalhotline.org

MONEY MANAGEMENT INTERNATIONAL CHULA VISTA
730 Broadway #200
Chula Vista, CA 91910
(866) 232-9080
http://www.moneymanagement.org

MONEY MANAGEMENT INTERNATIONAL CONCORD
1070 Concord Avd. #105
Concord, CA 94520
(866) 232-9080
http://www.moneymanagement.org

MONEY MANAGEMENT INTERNATIONAL FREMONT
3100 Mowry Ave. #403-A
Fremont, CA 94538
(866) 232-9080
http://www.moneymanagement.org

MONEY MANAGEMENT INTERNATIONAL OAKLAND
7677 Oakport St. #700
Oakland, CA 94621
(866) 232-9080
http://www.moneymanagement.org

MONEY MANAGEMENT INTERNATIONAL SAN DIEGO
2650 Ccamino Del Rio North #209
San Diego, CA 92108
(866) 232-9080
http://www.moneymanagement.org

NEIGHBORHOOD HOUSE ASSOCIATION
841 South 41st Street
San Diego, CA 92113

(619) 263-7761 ext 139
http://www.neighborhoodhouse.org

NOVADEBT
2655 Camino Del Rio North, Ste. 120
San Diego, CA 92108
(866) 472-4557
www.novadebt.org

PROJECT SENTINEL
525 Middlefield Road, Suite #200
Redwood City, CA 94063
(650) 321-6291
http://www.housing.org

RURAL COMMUNITY ASSISTANCE CORP
3120 Freeboard Drive, Suite 201
West Sacramento, CA 95691
(916) 447-9832 ext 1015
http://www.rcac.org

SPRINGBOARD NON PROFIT CONSUMER CREDIT MANAGEMENT INC - MAIN OFFICE
4351 Lathan Street
Riverside, CA 92501
(800) 947-3752
homeownership.org

SPRINGBOARD NON-PROFIT CONSUMER CREDIT MANAGEMENT, INC
4351 Latham Street
Riverside, CA 92501
(800) 449-9392
www.credit.org

SUREPATH FINANCIAL SOLUTIONS
80 N. Wood Road, Suite 200
Camarillo, CA 93010
(805) 383-7700
http://www.surepath.org

WISE & HEALTHY AGING
1527 4th Street, 2nd Floor
Santa Monica, CA 90401
(310) 394-9871
http://www.wiseandhealthyaging.org